

NARRATIVE REPORT ON BOTSWANA



PART 1: NARRATIVE REPORT

Botswana: the unknown cost of its secrecy

Botswana comes in at 103rd place in our 2018 Financial Secrecy Index. The country has a relatively high secrecy score of 68, but has an insignificant market for offshore financial services. Botswana accounts for just 0.00018% of the global market in financial secrecy.

Botswana, [as early as 1995](#), explored the option of establishing an International Financial Services Centre (IFSC) ‘as a possible engine of growth for the [...] economy’.¹ At the time, the United States Agency for International Development provided funding to carry out a feasibility study.² Deloitte & Touche South Africa managed the project, along with advisors from Luxembourg, Bermuda and the Isle of Man – notorious secrecy jurisdictions. The team recommended that ‘in the face of increasing international and regional competition, Botswana needs to act quickly and decisively’.³

Several years later, diamond-rich Botswana appears to have followed recommendations, earning itself the nickname ‘[the Switzerland of Africa](#)’.⁴ In 2003, it established an International Financial Services Centre [offering packages](#) that exempt companies from capital gains and withholding tax, with limited foreign exchange controls.⁵ Tax benefits also include a discounted corporate tax rate of 15% on profits although they are taxable on worldwide income and a zero rate for VAT. Tax exemptions are extended to interest, dividends, management fees and royalties when paid to a non-resident or IFSC company. [Residence permits](#) can also be obtained through investment, starting as low as EUR 43,000.⁶ In competition with Mauritius to be an entry point to doing business in other African countries, Botswana [currently has](#) a network of 13 Double Taxation Avoidance Treaties and 32 in various stages of negotiation and ratification.⁷

Today, the financial sector contributes [16.3% to GDP, up from 14.7% in 2011](#).⁸ Yet as of mid-2017, well over a decade after tax concessions and holidays were instituted, the cost of these to the country in terms of revenue forgone has not been quantified, [according to the International Monetary Fund \(IMF\)](#).⁹ The IMF warns against the tax incentives: ‘international best practice has shown that accelerated depreciation allowances or investment tax credits associated to a loss carry-forward period are far more cost-effective and better to attract long-term investments than temporary tax holidays and rate reductions, which tend to attract foot-loose enterprises’.¹⁰

Foot-loose enterprises or not, Botswana does not appear to be heeding this advice as it continues to seek to create a so-called ‘[investor-friendly](#)’ business environment.¹¹ It is in the process of [setting up eight special economic zones](#) for activities ‘with perceived comparative advantage, including mineral beneficiation, leather, beef, financial services and agricultural processing’.¹² Yet the arrangements and incentives offered to companies is likely to come at a cost to the country’s coffers.

Rank: 103

Chart 1 - How Secretive?

69
Secrecy Score

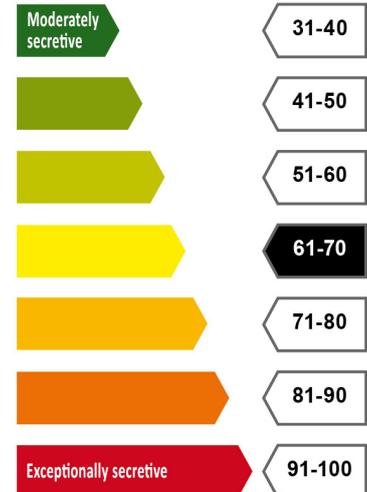
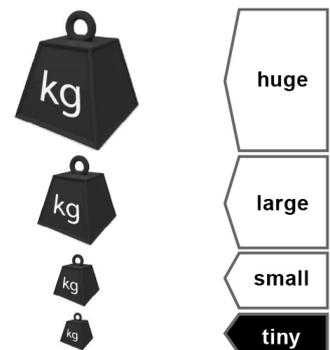


Chart 2 - How Big?



Botswana accounts for less than 0,1 per cent of the global market for offshore financial services, making it a tiny player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data on Botswana is available here: www.financialsecrecyindex.com/database

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For example, the arrangement the government has with De Beers for the country's famous diamonds is shrouded in secrecy: contracts are not public, the valuation formula of diamonds produced is unknown, increasing the risk of trade mis-pricing, and the corporate ties between the ruling party and the company are not transparent. According to a [recent study into De Beers and Botswana's diamonds](#), 'Botswana's paper success does not translate to the kinds of gains the country should be receiving. Disclosure of key information and removal of De Beers' monopoly would liberate the economy and its democracy'.¹³

Botswana has faced international scrutiny. Controversially, [at the G20 Summit in 2012](#), former French president Nicholas Sarkozy called for the exclusion of Botswana, along with 11 other countries, from the international business community since the country was without a 'suitable legal framework for the exchange of tax information'.¹⁴ In 2017, France again blacklisted Botswana, despite Botswanan president Ian Khama's protestations that they have taken steps to align with international standards since 2010, including [amendments to the Income Tax Act to allow for the exchange of information](#).¹⁵

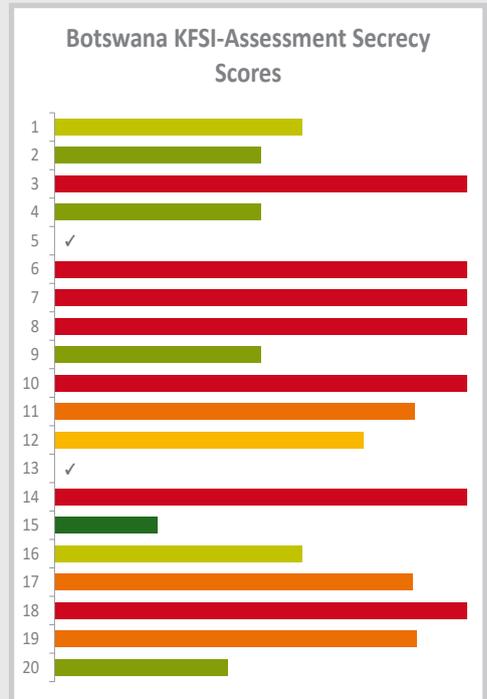
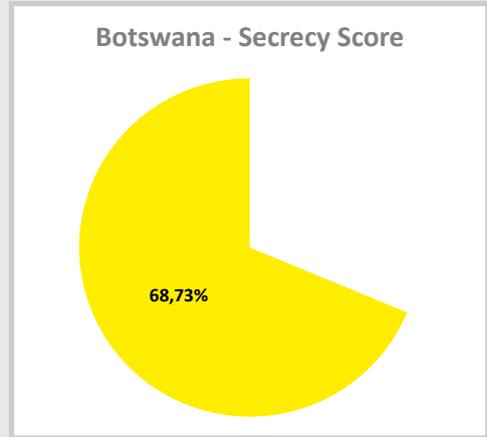
Botswana is in fact [yet to sign important international agreements](#), notably, the Amended Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters (Tax Convention)¹⁶ and the Multilateral Competent Authority Agreement ([MCAA](#)) to implement the OECD's Common Reporting Standard.¹⁷ And [information sharing remains limited](#), enabling companies and wealthy foreigners to get away with tax avoidance and evasion by avoiding detection in their home countries or where business activity actually takes place.¹⁸

There may be limited information on the way Botswana's IFSC is used for illicit and criminal practice, however, according to the [2017 evaluation](#) carried out by Eastern and Southern Africa Anti-Money Laundering Group, without a developed anti-money laundering and counter-terrorist financing regime, the country is vulnerable and at risk of being used as a conduit.¹⁹

Endnotes

- 1 http://pdf.usaid.gov/pdf_docs/pnaby256.pdf, p.1; 30.01.2018.
- 2 http://pdf.usaid.gov/pdf_docs/pnaby256.pdf; 30.01.2018.
- 3 http://pdf.usaid.gov/pdf_docs/pnaby256.pdf, p.5; 30.01.2018.
- 4 <http://hir.harvard.edu/article/?a=2729>; 30.01.2018.
- 5 Botswana Investment and Trade Centre 2017, 'Botswana Investors Handbook 2017', http://www.bitc.co.bw/sites/default/files/bitc_investor_handbook_amended_final_0.pdf; 30.01.2018.
- 6 <http://www.walshww.com/botswana-residence-permit-by-investment/>; 30.01.2018.
- 7 Botswana Investment and Trade Centre 2017, 'Botswana Investors Handbook 2017', http://www.bitc.co.bw/sites/default/files/bitc_investor_handbook_amended_final_0.pdf; 30.01.2018.
- 8 This figure includes 'Finance, real estate and business services'. Honde, G 2017, 'Botswana', *African Economic Outlook 2017*, African Development Bank/Organisation of Economic Cooperation and Development/United Nations Development Programme, p.5, <http://www.africaneconomicoutlook.org/en/country-notes/botswana>; 30.01.2018.
- 9 IMF August 2017, 'Botswana: Selected Issues', Country Report 17/250, <https://www.imf.org/en/Publications/CR/Issues/2017/08/08/Botswana-Selected-Issues-45173>; 30.01.2018.
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- 13 Sharife, K June 2016, 'Botswana's Diamond Deception', Open Society Initiative of Southern Africa, p.6, https://web.archive.org/web/20171016180140/http://www.osisa.org/sites/default/files/sup_files/de_beers_paper_-_osisa_final_lowres1.pdf; 30.01.2018.
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- 18 <http://www.sundaystandard.info/botswana-papers-ifsc-was-created-make-botswana-tax-haven>; 28.11.2017. And www.fatf-gafi.org/media/fatf/documents/4th-Round-Ratings.xlsx; 30.01.2018.
- 19 Eastern and Southern Africa Anti-Money Laundering Group 2017, 'Anti-money laundering and counter-terrorist financing measures – Botswana, Second Round Mutual Evaluation Report', http://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/MER_of_Botswana%20_COUNCIL_Final%20_Publication.pdf; 30.01.2018.

PART 2: BOTSWANA'S SECRECY SCORE



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 69 per cent has been computed as the average score of 20 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail by clicking on the name of the indicators.

A grey tick indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 30.09.2017.

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